



TVA Operating Expenses 2008

August 1, 2007



Overview

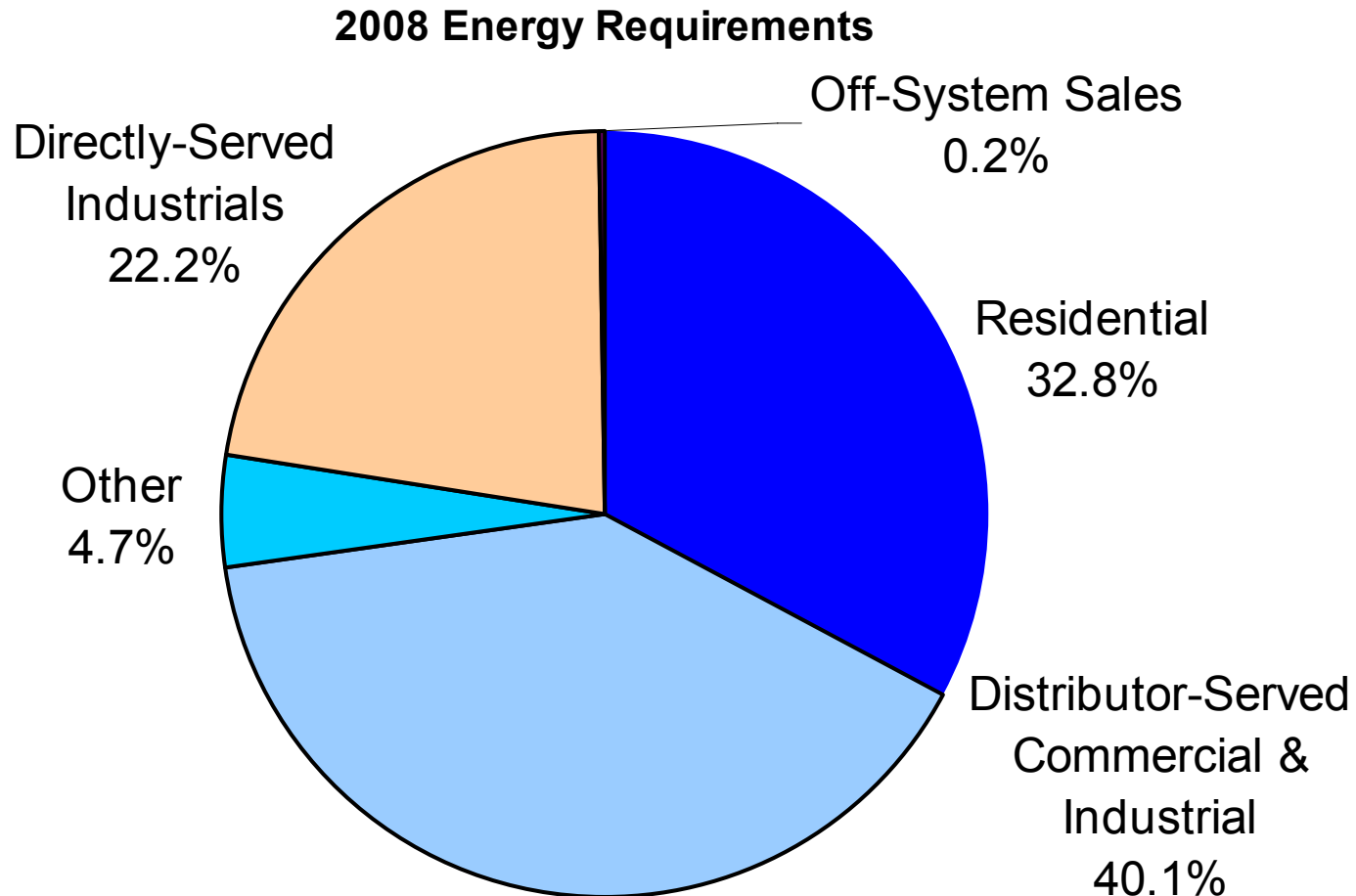
Aligned with the TVA 2007 Strategic Plan

<u>Customers</u>	<u>People</u>	<u>Financial</u>	<u>Assets</u>	<u>Operations</u>
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- Continue to reduce our dependency on the market for energy
- Encourage energy efficiency and conservation
- Provide bundled generation and transmission services to our customers
- O&M growth is less than sales growth in MWh

Electricity Sales Projection

- Native load sales growth is 3.7% (6,362 GWh) higher than the 2007 budget

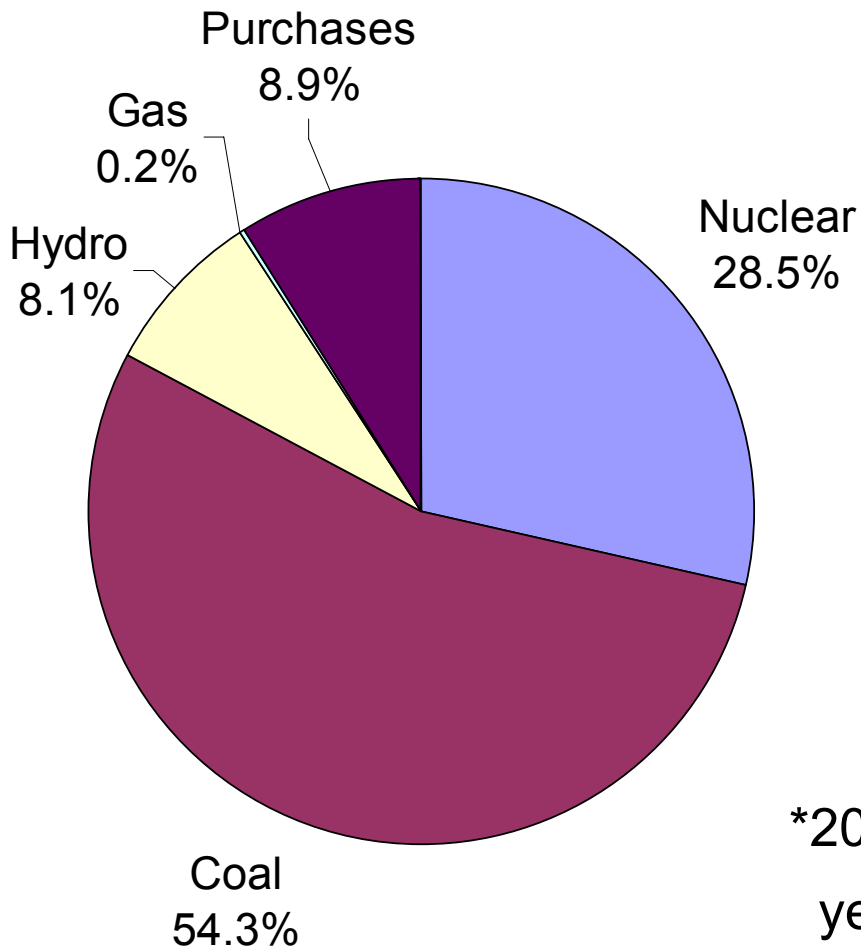


Operating Performance

- Key Drivers of Load Growth (6,362 GWh)
 - Industrial Growth (2,305 GWh)
 - Distributor Growth (1,982 GWh)
 - New Industrial Customers (1,025 GWh)
 - Leap Year – One additional day (525 GWh)
 - Bristol, VA (525 GWh)
- System peak load of 33,023 MW, up 1.4% over 2007 budget

Energy Supply

2008 MWh Generation by Sources



<u>Supply</u>	<u>Change from 2007 Budget</u>
Nuclear	8.7% ↑
Coal	1.1% ↑
Gas	139.2% ↑
*Hydro	13.1% ↓
Purchases	14.9% ↑

*2008 Hydro generation based on third
year drought model



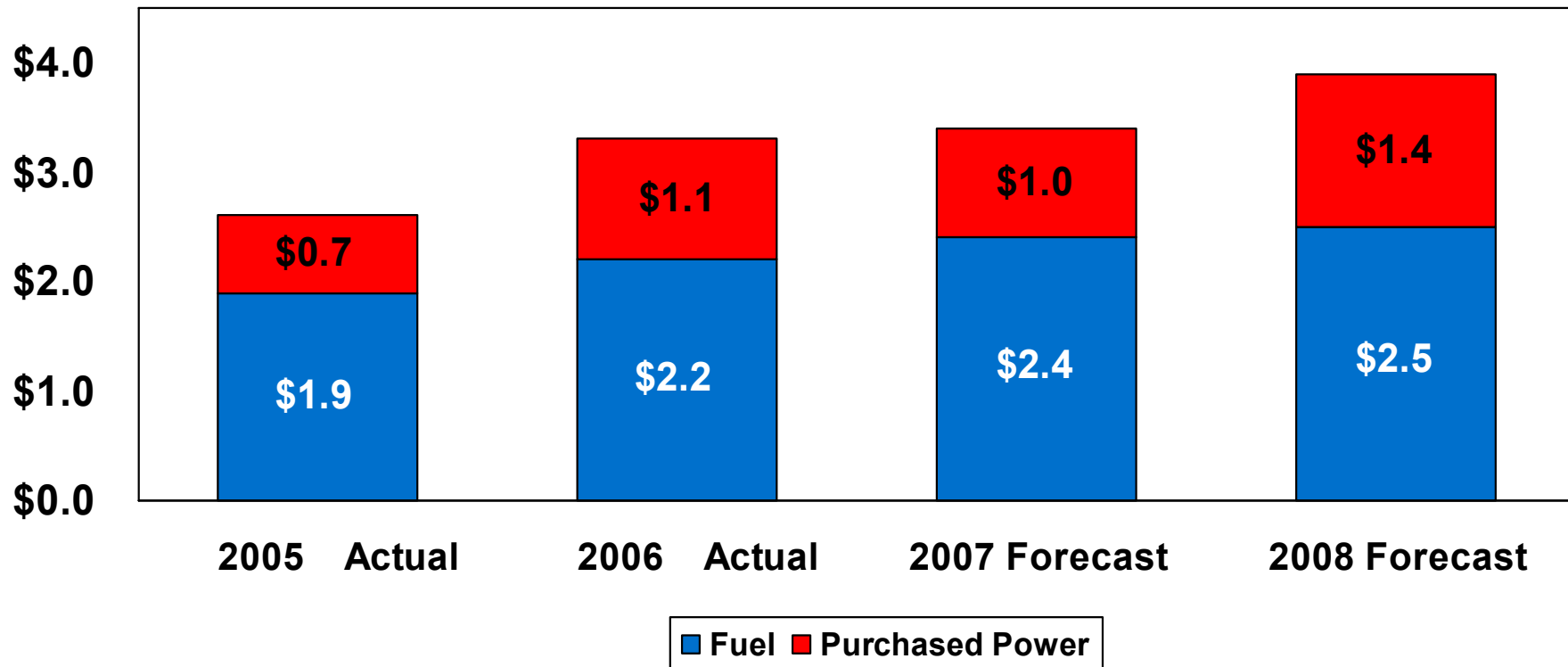
Summary Operating Expenses

(in billions)	2005 Actual	2006 Actual	2007 Budget	2007 Forecast	2008 Forecast
Fuel	(1.9)	(2.2)	(2.3)	(2.4)	(2.5)
Purchased Power	(0.7)	(1.1)	(1.0)	(1.0)	(1.4)
O&M	(2.3)	(2.3)	(2.4)	(2.4)	(2.4)
Depreciation, Amortization	(1.1)	(1.5)	(1.4)	(1.5)	(1.5)
Taxes and Other	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)
Interest Expense	(1.2)	(1.2)	(1.3)	(1.2)	(1.3)
Total Operating Expenses	\$ (7.6)	\$ (8.7)	\$ (8.8)	\$ (8.9)	\$ (9.6)



Fuel & Purchased Power Summary

(in billions)



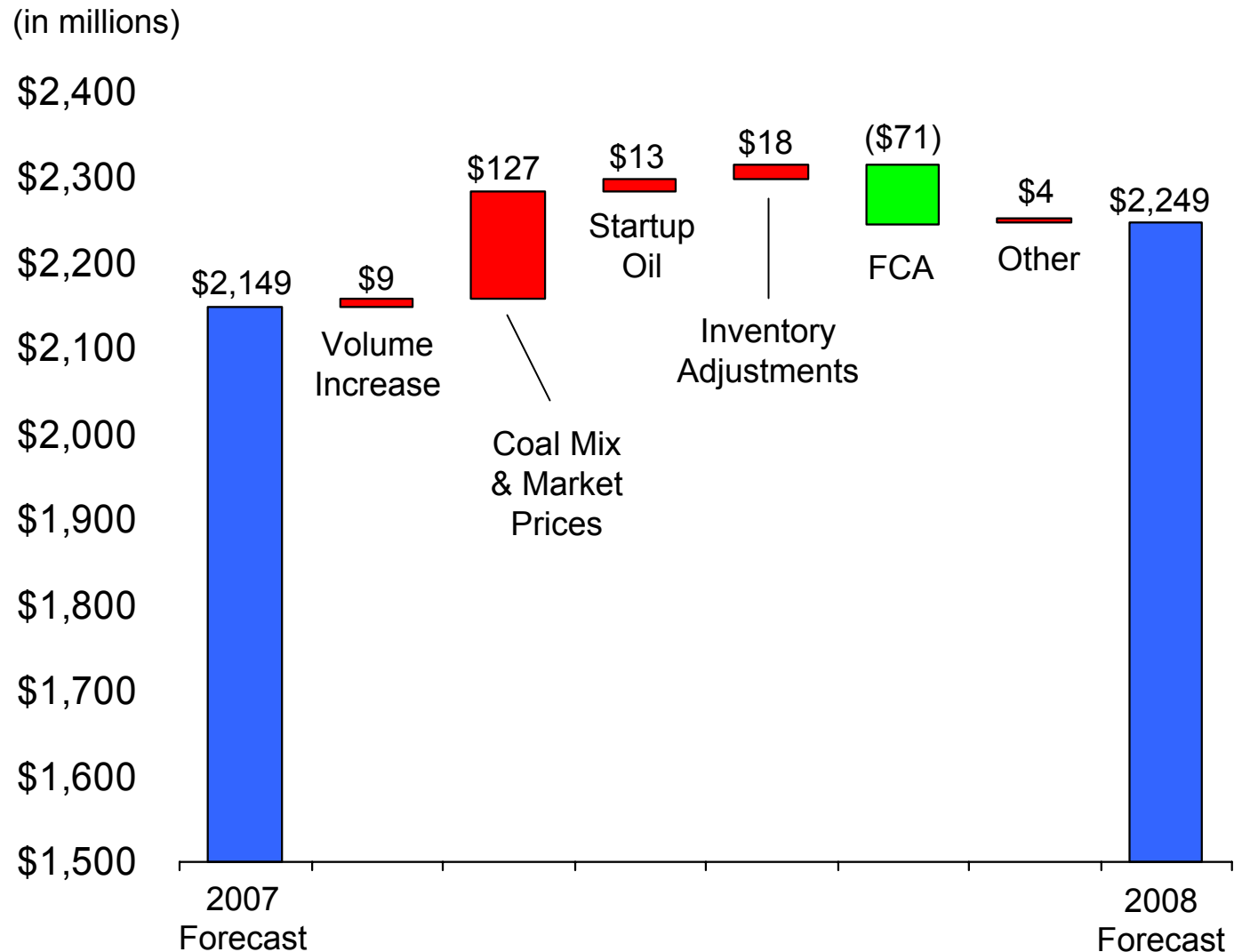


Coal

2007 Forecast versus 2008 Forecast

Key Drivers

- Coal mix and sourcing changes
- Market prices



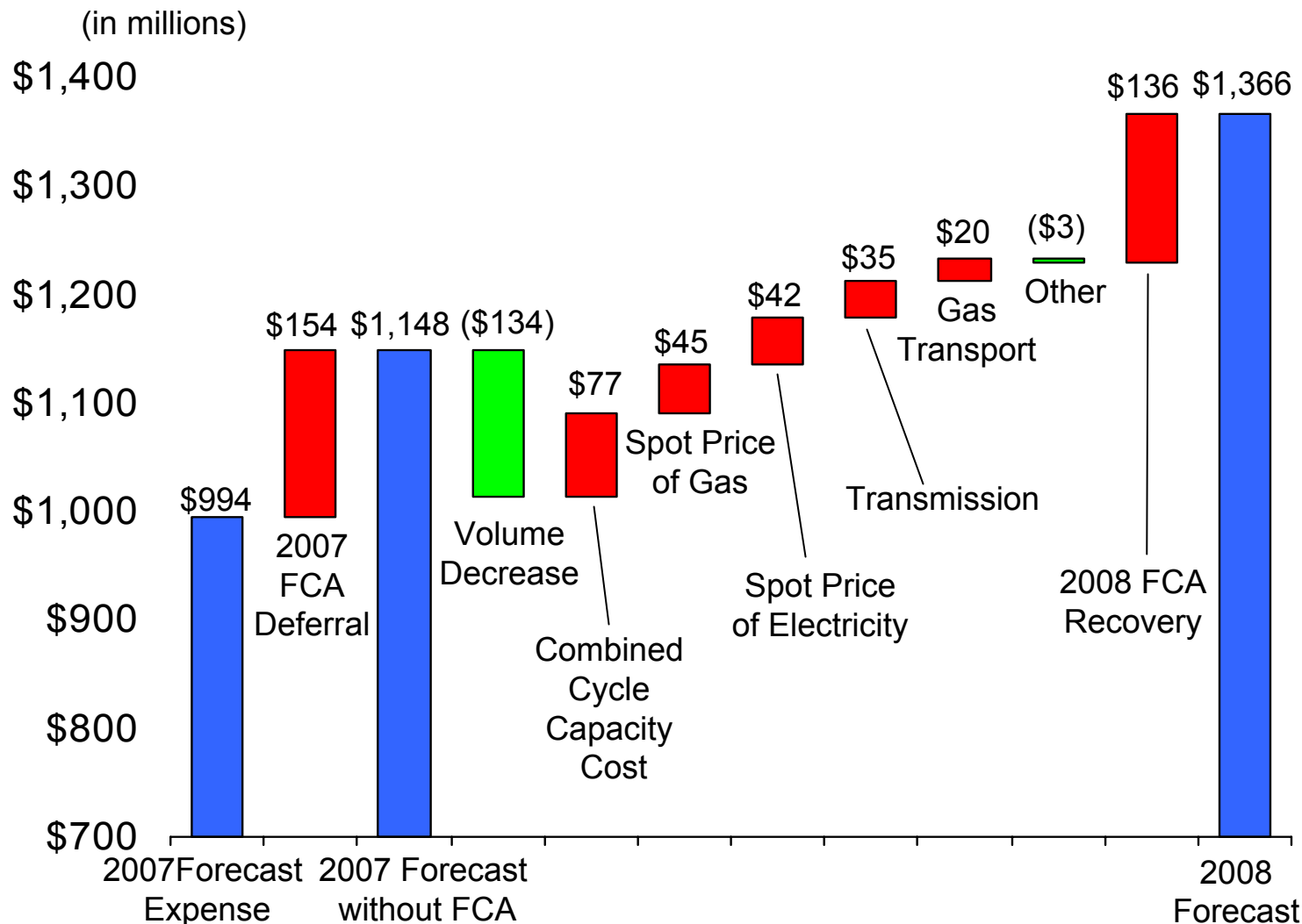


Purchased Power

2007 Forecast versus 2008 Forecast

Key Drivers:

- Capacity cost
- Market prices



Includes cost of natural gas used for purchased power agreements

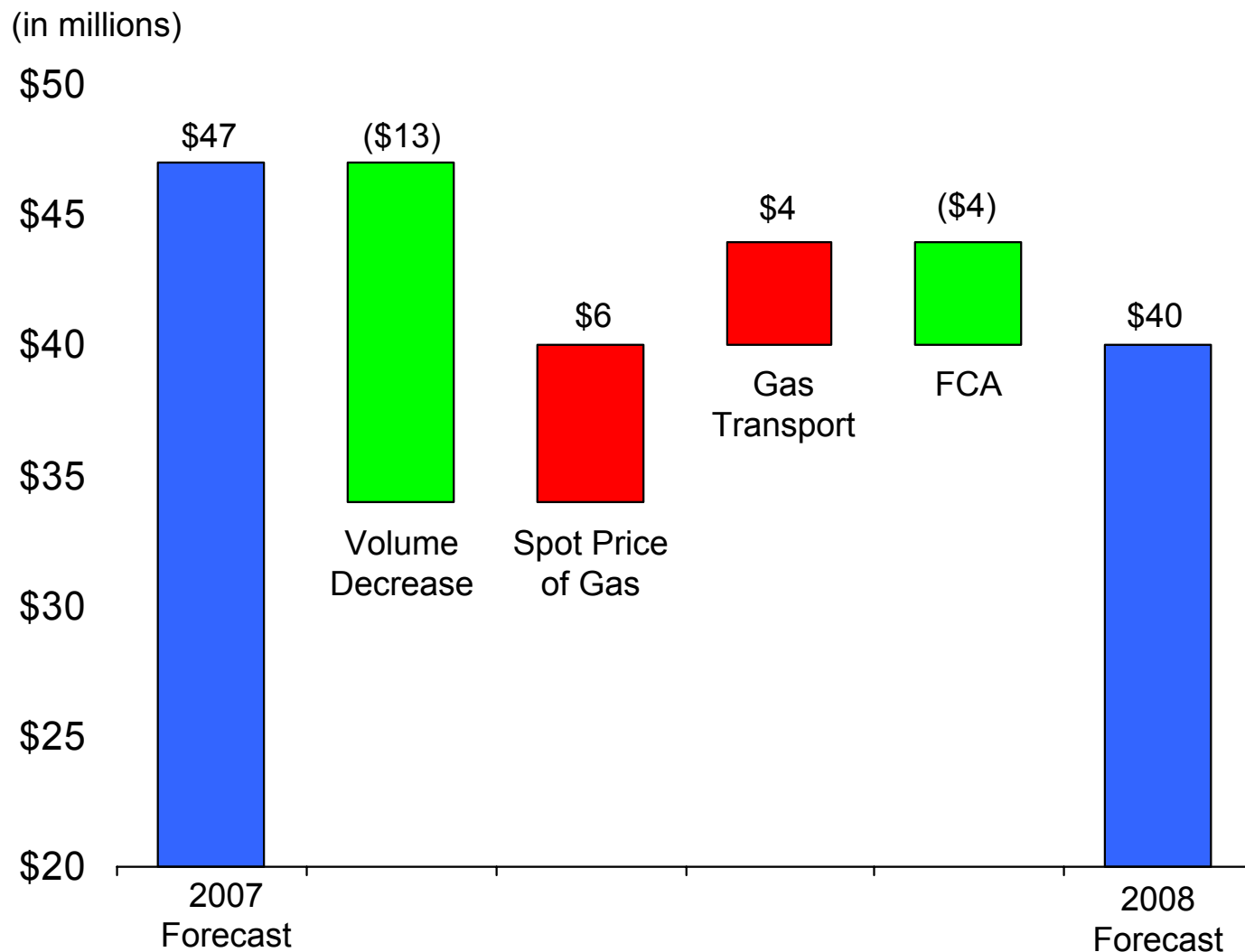


Natural Gas

2007 Forecast versus 2008 Forecast

Key Drivers:

- Market Prices
- Firm transportation



Includes cost of natural gas used TVA-owned assets only



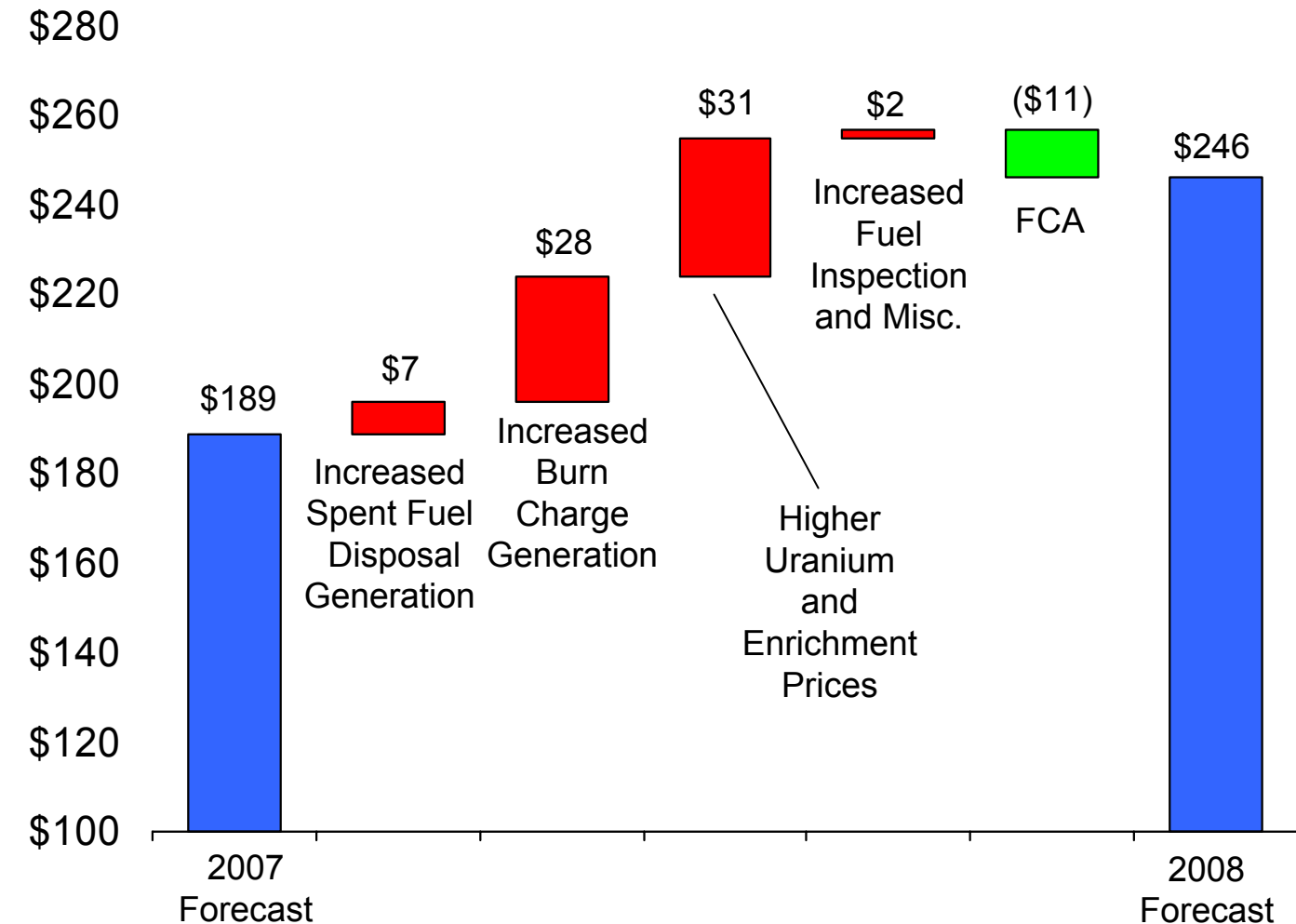
Nuclear Fuel Expense

2007 Forecast versus 2008 Forecast

Key Drivers:

- Generation
- Market prices
- BLEU program

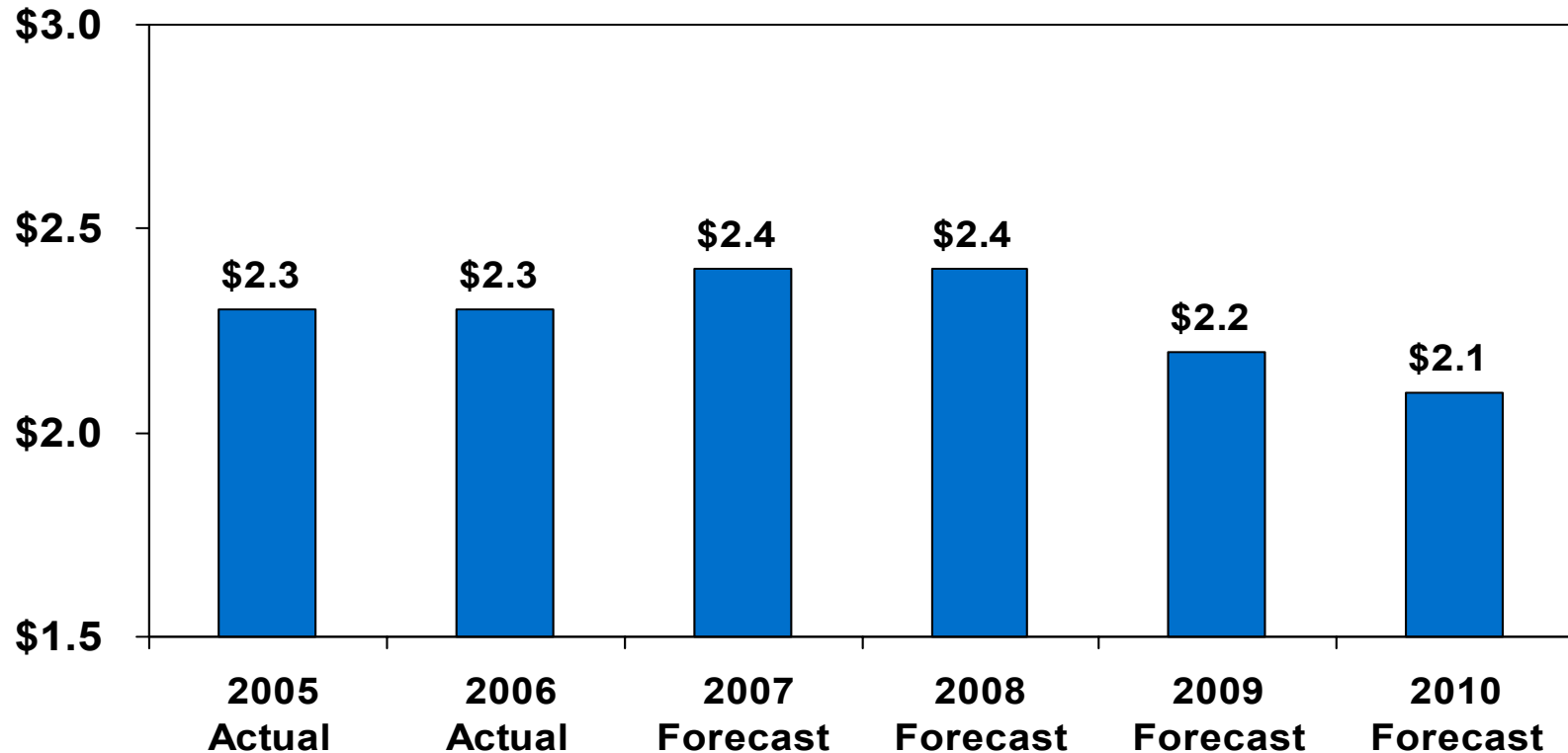
(in millions)





O&M Summary

(in billions)



- 2008 O&M Outage increased from 2007 due to higher scheduled nuclear outages (4 versus 2) and new capacity in production.
- 2008 Productivity investments increased from 2007 forecast due to costs related to energy efficiency and peak reduction, new information systems project, and fossil recovery.



O&M

2007 Forecast versus 2008 Forecast

(in millions)

\$2,700

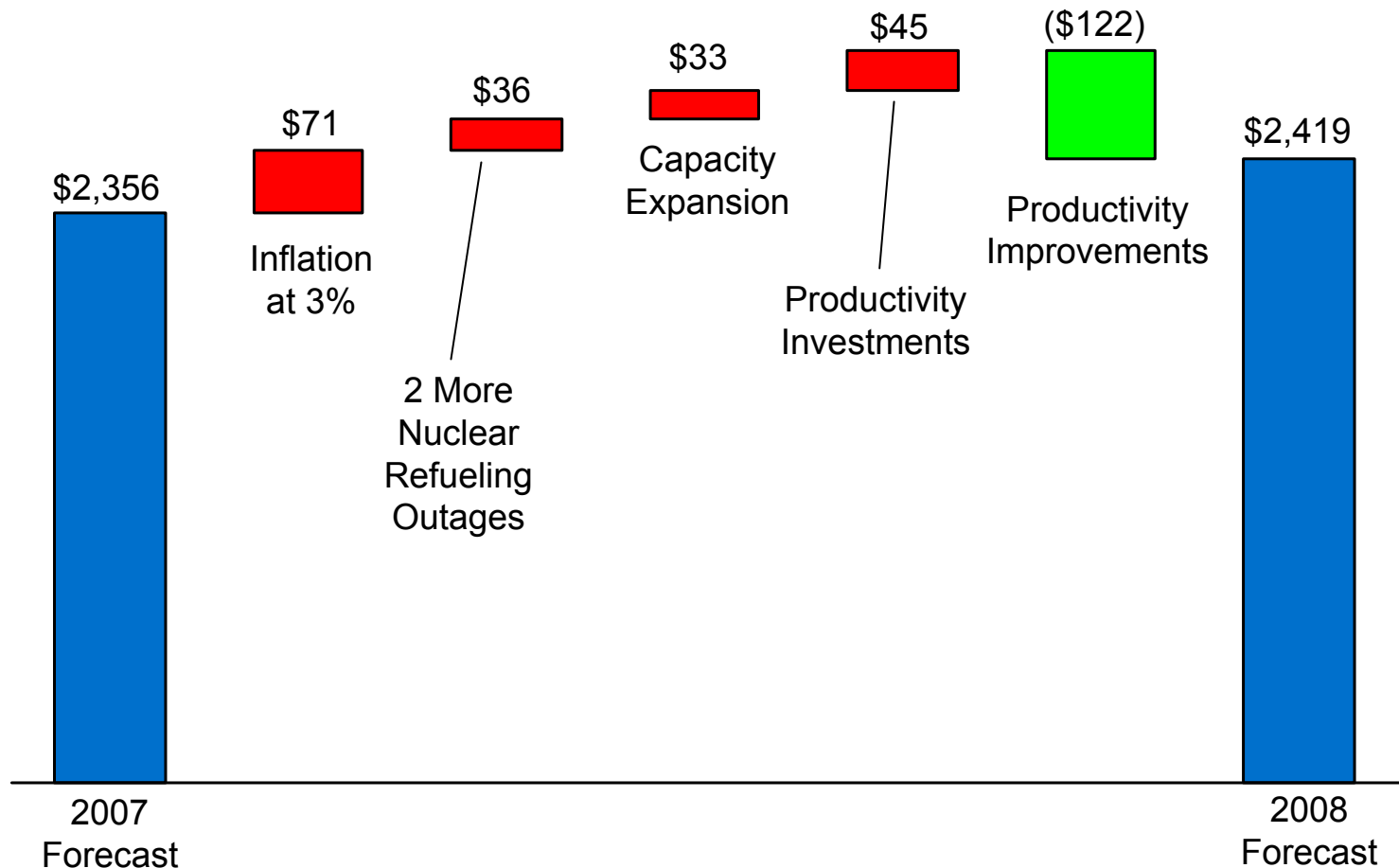
\$2,500

\$2,300

\$2,100

\$1,900

\$1,700

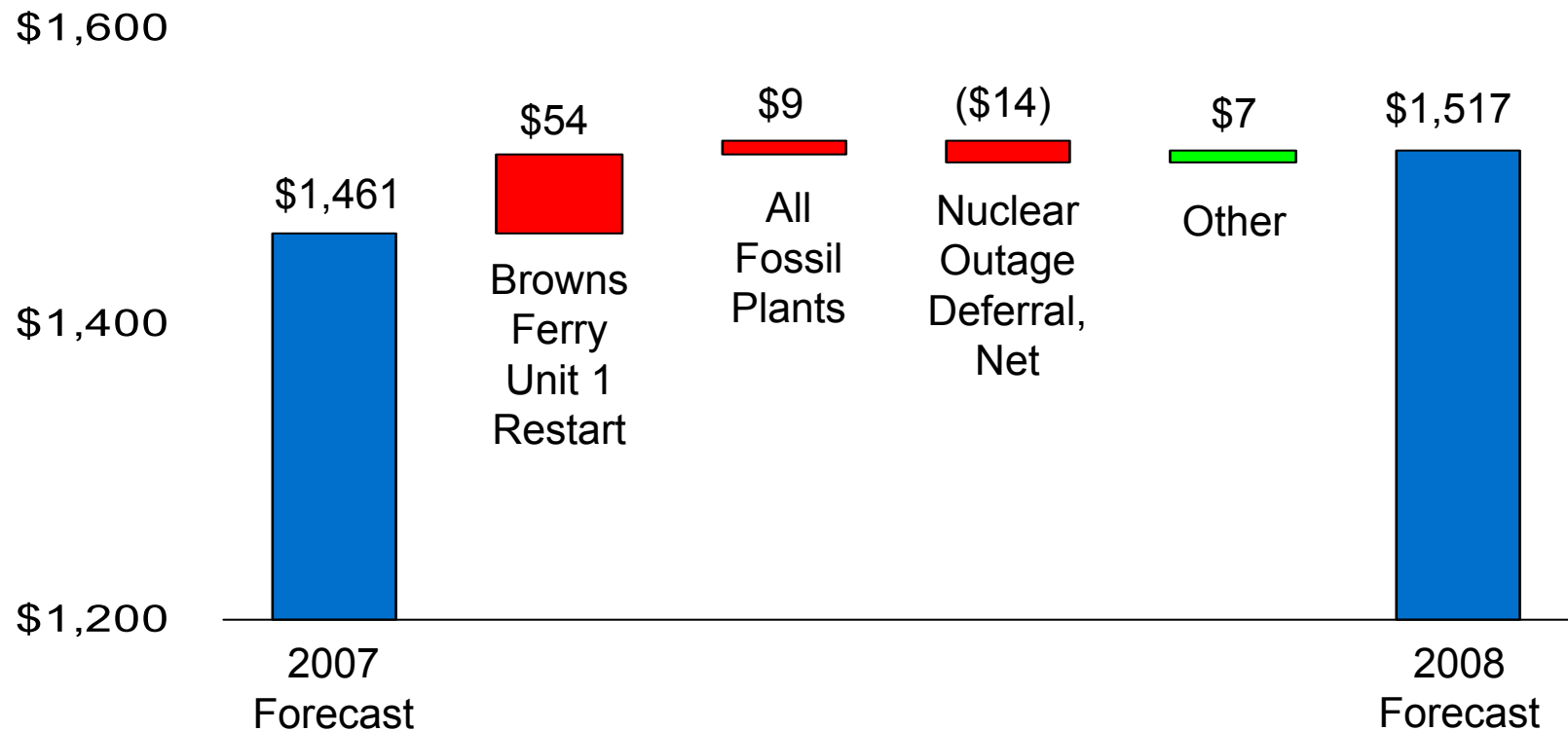


*O&M does not include fuel or clean air chemicals.

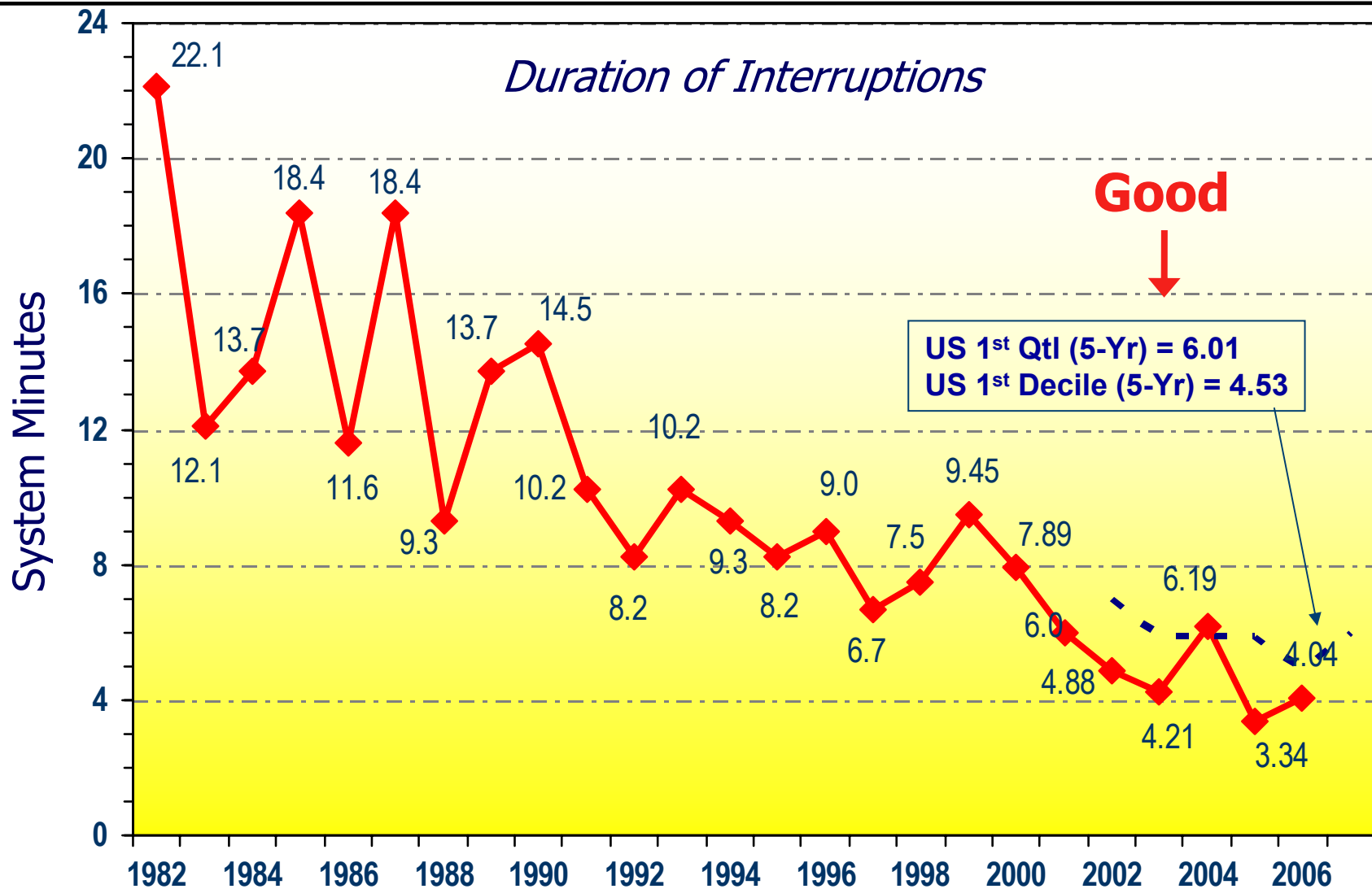


Depreciation and Amortization

(in millions)



Transmission Reliability





Summary

The 2008 Business Plan:

- Supports the strategic plan's focus
- Supports TVA's historic, three-part mission: energy, environment and economic development
- Meet demand growth needs in the Valley
- Promote energy efficiency
- Use of sound financial principles
- Holds O&M flat

Budget approval will be requested at the September Board meeting